

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date APRIL 8, 1993 Time: 8:15 A.M.

| NAME | REPRESENTING | LOCATION |
|----------------------|--------------------------------|--------------|
| Curtis Smith | Santa Fe Energy | Midland, Tx |
| Richard Wright | Pogo Producing Co | Midland, TX |
| GARY HOOSE | " | " |
| Bill Fosvick | Pogo Producing Co. | Houston, TX |
| TERRY GANT | POGO Producing Co. | Midland, TX |
| William J. [unclear] | Campbell, [unclear], [unclear] | Santa Fe |
| Gene Davis | Santa Fe Energy | Midland, Tx. |
| ERIC D. CARLSON | MARATHON OIL COMPANY | MIDLAND, TX |
| DONALD PRICE | MARATHON OIL COMPANY | MIDLAND, TX |
| DAVE BONEAU | YATES PETROLEUM | ARTESIA, NM |
| Diese [unclear] | Yates Petro | Artesia, NM |
| James [unclear] | Yates Petroleum Corp. | Artesia, NM |
| James [unclear] | Hinkle Law Firm | Santa Fe |
| Nannie [unclear] | Byram Co | SF |
| Rerry [unclear] | Burlington Resources | SF |
| W. [unclear] | Kellogg + Kellogg | Santa Fe |
| Denny Foust | OCD | Artec |
| Theresa Sloan | Yates Petroleum | Artesia, NM |

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| NAME | REPRESENTING | LOCATION |
|----------------|---------------------------------------|-------------|
| J.C. Johnson | Pat. Development Corp | Albuquerque |
| Jim Johnson | ✓ ✓ ✓ | Española |
| W.R. Kegel | ✓ — — | |
| Bob Fout | Yates Petroleum | Artesia |
| ERIC BAUER | MERIDIAN OIL | FARMINGTON |
| Kent Beers | " " | FARMINGTON |
| Michael Cuba | Amoco Production Co. | Denver |
| Jim Hornbeck | MERIDIAN OIL | FARMINGTON |
| MIKE RIPPIN | MERIDIAN OIL | FARMINGTON |
| DAVE JENSEN | MERIDIAN OIL | FARMINGTON |
| SCOTT B. DAVES | MERIDIAN OIL | FARMINGTON |
| DAVE MARTIN | PETROLEUM RECOVERY RESEARCH CENTER | SOCORRO |

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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE 10,666

EXAMINER HEARING

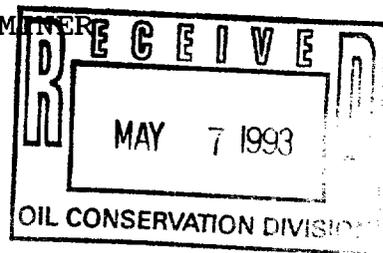
IN THE MATTER OF:

Application of Santa Fe Energy Operating Partners,
L.P., for compulsory pooling, an unorthodox gas
well location and a nonstandard gas spacing and
proration unit, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

ORIGINAL

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 8, 1993

A P P E A R A N C E S

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FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
Attorneys at Law
By: JAMES G. BRUCE
218 Montezuma
P.O. Box 2068
Santa Fe, New Mexico 87504-2068

FOR ENRON OIL AND GAS COMPANY:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Attorneys at Law
By: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

* * *

| I N D E X | | Page Number |
|-----------|----------------------------------|-------------|
| 1 | | |
| 2 | | |
| 3 | Appearances | 2 |
| 4 | CURTIS D. SMITH | |
| 5 | Direct Examination by Mr. Bruce | 5 |
| 6 | Examination by Examiner Catanach | 9 |
| 7 | GENE DAVIS | |
| 8 | Direct Examination by Mr. Bruce | 12 |
| 9 | Examination by Examiner Catanach | 17 |
| 10 | Certificate of Reporter | 20 |
| 11 | * * * | |
| 12 | | |
| 13 | E X H I B I T S | |
| 14 | APPLICANT'S EXHIBITS: | |
| 15 | Exhibit 1 | 6 |
| 16 | Exhibit 1A | 6 |
| 17 | Exhibit 2 | 6 |
| 18 | Exhibit 3 | 8 |
| 19 | Exhibit 4 | 8 |
| 20 | Exhibit 5 | 9 |
| 21 | Exhibit 6 | 13 |
| 22 | * * * | |
| 23 | | |
| 24 | | |
| 25 | | |

1 WHEREUPON, the following proceedings were had
2 at 8:20 a.m.:

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7 EXAMINER CATANACH: At this time we'll call
8 Case 10,666.

9 MR. STOVALL: Application of Santa Fe Energy
10 Operating Partners, L.P., for compulsory pooling, an
11 unorthodox gas well location and a nonstandard gas
12 spacing and proration unit, Eddy County, New Mexico.

13 EXAMINER CATANACH: Are there appearances in
14 this case?

15 MR. BRUCE: Mr. Examiner, Jim Bruce from the
16 Hinkle Law Firm in Santa Fe, representing the
17 Applicant. I have two witnesses to be sworn.

18 EXAMINER CATANACH: Other appearances?

19 MR. CARR: May it please the Examiner, my
20 name is William F. Carr with the Santa Fe law firm of
21 Campbell, Carr, Berge and Sheridan. We represent Enron
22 and we do not intend to call a witness.

23 EXAMINER CATANACH: Any other appearances?

24 Will the witnesses please stand and be sworn in?

25 (Thereupon, the witnesses were sworn.)

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CURTIS D. SMITH,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Will you please state your name and city of residence?

A. My name is Curtis Smith. I live in Midland, Texas.

Q. And who do you work for and in what capacity?

A. I work for Santa Fe Energy Operating Partners, L.P., and I'm a senior landman.

Q. And have you previously testified before the Division as a landman?

A. Yes, I have.

Q. And your credentials were accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the land matters involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I would tender Mr. Smith as an expert landman.

EXAMINER CATANACH: Mr. Smith is so qualified.

1 Q. (By Mr. Bruce) Briefly, Mr. Smith, what does
2 Santa Fe seek in this Application?

3 A. Santa Fe requests approval of a nonstandard
4 320-acre proration unit and an unorthodox gas well
5 location for its Kansas City Singer "18" Number 1 in
6 the east half of Section 18, Township 20 South, Range
7 27 East.

8 Q. Would you identify Exhibit 1 for the
9 Examiner?

10 A. Exhibit 1 is a land plat that shows the
11 proration unit, the well location, and also the offset
12 operators.

13 Q. Okay. Are the offset operators identified
14 specifically on Exhibit 1A?

15 A. Yes, they are. It's a list of the offset
16 operators and the sections in which they operate or
17 have leasehold.

18 Q. Okay, what is the target formation?

19 A. Morrow.

20 Q. Okay. What pool is this well located in?

21 A. The McMillan-Morrow Gas Pool.

22 Q. Is Exhibit 2 a copy of the pool rules?

23 A. Yes, it is.

24 Q. What's the spacing in the pool?

25 A. 640 acres.

1 Q. And it requires wells to be at least 1650
2 feet from the section line?

3 A. That is correct.

4 Q. Do the pool rules allow nonstandard units?

5 A. Yes, they do, in Rule 3.

6 Q. Okay. Why does Santa Fe request a
7 nonstandard unit?

8 A. Referring to Exhibit 1, there is a well
9 located in the northwest quarter of Section 18 which
10 has been depleted, and our geologist will testify
11 further as to the production and history of that well,
12 and we feel that a gas well located in Section 18 will
13 further deplete the reservoir to its economic extent.

14 Q. And that well in the southeast quarter of the
15 northwest quarter is also an oil well?

16 A. Yes, it was.

17 Q. Will any interest owners in Section 18 be
18 excluded in participation from the well as a result of
19 the nonstandard unit?

20 A. No, they will not.

21 We have proposed an AMI with Enron, who
22 received a farmout from Pacific Enterprises/Hunt Oil
23 Company, covering -- Their farmout covers all of
24 Section 18, and we have proposed an AMI and come to
25 terms with Enron for an AMI of 50 percent for each

1 party.

2 Also, referring to Exhibit 3, the mineral
3 ownership throughout the whole section is common.

4 Q. And it's fee land?

5 A. Yes, it is.

6 Q. So all the mineral ownership is undivided in
7 this section?

8 A. That's correct, throughout the whole section.

9 Q. Are the pool rules for the McMillan-Morrow
10 limited in extent?

11 A. Yes, they are, to Sections 7, 18 and 19.

12 Q. In Section -- I mean, Township 20 South,
13 Range 27 East?

14 A. Yes, that's correct.

15 Q. And is Exhibit 4 a copy of the OCD Order
16 which limits those pool rules?

17 A. Yes, it is.

18 Q. Does Santa Fe seek to force-pool Enron?

19 A. No, since we've come to terms with Enron we
20 do not seek to force-pool.

21 Q. So that portion of the Application can be
22 dismissed?

23 A. Yes, yes.

24 Q. And were the offset operators notified of
25 this Application?

1 the status of the well.

2 Q. The working interest ownership in Section 18
3 is limited to Santa Fe, Enron and Pacific, did you say?

4 A. Santa Fe and Enron. Enron received a farmout
5 from Pacific.

6 Q. And you've reached an agreement with Enron?

7 A. Yes, we have.

8 And of course, Hunt Oil Company bought out
9 Pacific's leasehold. Enron initially received a
10 farmout from Pacific Enterprises, and it had to have
11 Hunt's blessing.

12 Q. Do you know what spacing unit the previous
13 well was dedicated to?

14 A. 640 acres.

15 Q. The whole section?

16 A. Uh-huh.

17 MR. STOVALL: You referred to an AMI. That's
18 the -- I assume that's the area of mutual interest --

19 THE WITNESS: Yes.

20 MR. STOVALL: -- agreement?

21 THE WITNESS: Yes. It extends farther than
22 just the boundaries of Section 18.

23 Q. (By Examiner Catanach) What effect does
24 forming the 320-acre unit have on the interest owners
25 in Section 18?

1 A. No -- There's no effect, it's uniform
2 throughout the section for working interest and mineral
3 interest.

4 Q. So they have the same percentage in the well?

5 A. That's correct.

6 Q. Whether or not it's a 640 or 320?

7 A. That's correct.

8 Q. And nobody is excluded?

9 A. That's correct.

10 And my Exhibit 3 is a breakdown of mineral
11 ownership.

12 And once again, Pacific Enterprises is the
13 mineral owner of record. I don't think they've filed
14 their assignments and mineral deeds yet into Hunt Oil
15 Company.

16 (Off the record)

17 MR. STOVALL: Under that section, through
18 which of those interests does your company claim its
19 ownership of rights to --

20 THE WITNESS: We have a lease from Singer
21 Brothers --

22 MR. STOVALL: Okay.

23 THE WITNESS: -- for 25 percent of the
24 leasehold.

25 MR. STOVALL: Okay, so this is the actual

1 ownership for the minerals, not leasehold; is that
2 correct?

3 THE WITNESS: That's correct, like it says at
4 the top, mineral ownership.

5 MR. STOVALL: Got you, okay.

6 Q. (By Examiner Catanach) Any response from any
7 of the offset operators?

8 A. No response.

9 EXAMINER CATANACH: That's all I have. The
10 witness may be excused.

11 MR. BRUCE: Call Mr. Davis.

12 GENE DAVIS,

13 the witness herein, after having been first duly sworn
14 upon his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name and city of
18 residence for the record?

19 A. My name is Gene Davis, and I live in Midland,
20 Texas.

21 Q. And who do you work for?

22 A. I work for Santa Fe Energy.

23 Q. And what is your job there?

24 A. I'm the district geological and geophysical
25 manager.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes, I have.

4 Q. And were your credentials as a geologist
5 accepted as a matter of record?

6 A. Yes, they were.

7 Q. And are you familiar with the geology of this
8 prospect?

9 A. Yes, I am.

10 MR. BRUCE: Mr. Examiner, I would tender Mr.
11 Davis as an expert petroleum geologist.

12 EXAMINER CATANACH: Mr. Davis is so
13 qualified.

14 Q. (By Mr. Bruce) Mr. Davis, referring to
15 Exhibit 6, could you discuss the Morrow geology in this
16 area?

17 A. Certainly. Exhibit 6 is a map of the net
18 clean sand isopach in the Middle Morrow interval in
19 this portion of the well in Township 20 South, 27 East.

20 Just this symbology: The proposed location
21 we have in Section 18 is shown by a square, open square
22 with a circle in the center. Our acreage is shown also
23 by a hachured pattern, and there are a number of well
24 symbols on the map, most important being the ones that
25 are colored in red, in circles. Those are Middle

1 Morrow sand producers.

2 Each of these wells has a set of numbers
3 associated with them. The first number on the left is
4 a gamma ray less than 60 units, the number feet of that
5 potential, and then the right is a density porosity
6 greater than seven percent. We use the gamma ray less
7 than 60 percent -- or 60 units, rather, as being an
8 indication of clean sand and, of course, a density
9 greater than seven percent being an indication of
10 porosity, potential of productive porosity in the
11 wells.

12 Referring to Section 18, you can see the
13 well, the Hondo -- or the Heyco Number 1 C Hondo Singer
14 well, which was drilled in the northwest quarter.

15 Basically we see the Middle Morrow interval
16 here is basically composed of sandstone, siltstones,
17 mudstones, shales and occasional coals.

18 Our interpretation of the environment of this
19 150-to-200-foot unit is that it is a fluvial deltaic
20 sequence. We see that it is oriented basically in a
21 northwest-to-southeast trend.

22 You can see that there is a marked thick in
23 the way of clean sand that trends basically from the
24 northwest to the southeast, across the area that we're
25 interested in, the acreage we have, and across Section

1 18.

2 The Heyco well, the 1 C Hondo Singer well,
3 had 114 feet of clean sand and 22 feet of density
4 porosity greater than seven percent.

5 That well was completed in 1964. It produced
6 6.4 BCF of gas, and it was plugged in -- sometime in
7 early 1984.

8 The indication on our map is that it was
9 inactive, and I've since found out that that has
10 actually been plugged and abandoned, so that well is
11 now plugged.

12 We have a location there in Section 18, and
13 basically that location is based on the geology that's
14 presented to you.

15 You can see that the thick that we see
16 trending from the northwest to the southeast, it splays
17 out a little bit more to the -- on the east side of the
18 township, and you can see there are numerous wells on
19 the east side of the township that are producing from
20 the Middle Morrow sand, and those are generally on 320-
21 acre spacing.

22 Q. Why does Santa Fe request the east half
23 nonstandard unit for this well?

24 A. We think that basically that the Morrow wells
25 only drain less -- somewhere between less or right

1 around 320 acres, and we believe that there are
2 substantial reserves left to be recovered in Section 18
3 on the east half of the section.

4 Q. Please discuss the reason for your location.

5 A. Well, the pool rules require that you have a
6 well that's 1650 feet from the outer boundaries of the
7 section, but because we are requesting a 320-acre unit
8 we've chosen a location which is standard for 320-acre
9 units, which would be 660 from the east and 1980 from
10 the south. And of course this is based on our
11 geological interpretation.

12 We also want to maintain a reasonable
13 distance away from the original Heyco well as well.

14 Q. In your opinion, will the 320-acre unit
15 interfere with development outside of Section 18?

16 A. No, I don't believe so. The McMillan-Morrow
17 Gas Pool, I guess, covers the Sections 7, 18 and 19,
18 and we see that any additional wells that would be
19 drilled to the east would be outside of that pool
20 boundary.

21 Q. And in Section 7 there's two Morrow wells,
22 isn't there?

23 A. That's correct, there are two Morrow wells.
24 One was drilled, plugged and abandoned, and then there
25 was a second well drilled in the section.

1 Q. Was Exhibit 6 prepared by you or under your
2 direction?

3 A. Yes, sir, prepared by myself.

4 Q. And in your opinion, is the granting of this
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes, I think so.

8 MR. BRUCE: Mr. Examiner, I move the
9 admission of Exhibit 6.

10 EXAMINER CATANACH: Exhibit 6 is hereby
11 admitted as evidence.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Davis, by -- is the well at your proposed
15 location -- Are you gaining anything in terms of
16 geologic advantage?

17 A. I don't think we're gaining anything, other
18 than the fact that I think we have an equal chance of
19 encountering similar thicknesses of sand as the
20 original well in the section did, and I think that's
21 going to give us a shot at recovering reserves that
22 have not been drained in that section by the original
23 well.

24 Q. So the reason for the nonstandard location is
25 basically because you're developing on 320 and you want

1 to keep it at a 320 location?

2 A. That's basically correct, yes.

3 Q. Have you estimated the reserves in the east
4 half of Section 18?

5 A. I have not, no.

6 Q. In terms of recovering gas from the east
7 half, will your location recover more at this location
8 than at a standard location for the pool?

9 A. I think either location -- Well, I believe
10 that we want to stay a reasonable distance away from
11 the original well, and I think that drilling the
12 location at this particular location -- or drilling the
13 well at this particular location will give us a chance
14 to be far enough away from any sphere of influence that
15 could possibly have been involved there.

16 Q. You haven't quantified the effect that that
17 might have?

18 A. I've looked at the wells around it, and I've
19 also looked at the wells in the Burton Flat area and
20 looked at the cums in those wells, and I feel that we
21 have a very good shot of recovering sizeable reserves
22 on the east half of Section 18 that haven't been
23 drained by the well in the northwest quarter. That's
24 basically the estimations I've done.

25 I've not done any quantitative work; it's

1 been more qualitative.

2 Q. By moving west to a more standard location
3 for the pool, you would probably have the -- encounter
4 the same amount of sand in the Morrow; is that your
5 opinion?

6 A. By moving west, you would probably be
7 thinning a little bit. You could go from possibly --
8 you know, somewhat greater than 110 feet, down to
9 something less than 80 feet, depending on how far west
10 you move.

11 EXAMINER CATANACH: Okay, do you have
12 anything, Mr. Carr?

13 MR. CARR: No questions.

14 EXAMINER CATANACH: That's all I have of the
15 witness, Mr. Bruce. You may be excused.

16 Anything further in this case?

17 MR. BRUCE: No, sir.

18 EXAMINER CATANACH: There being nothing
19 further, Case 10,666 will be taken under advisement.

20 (Thereupon, these proceedings were concluded
21 at 8:36 a.m.)

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